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Directorate of
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International Economic & Energy Weekly

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9 September 1983

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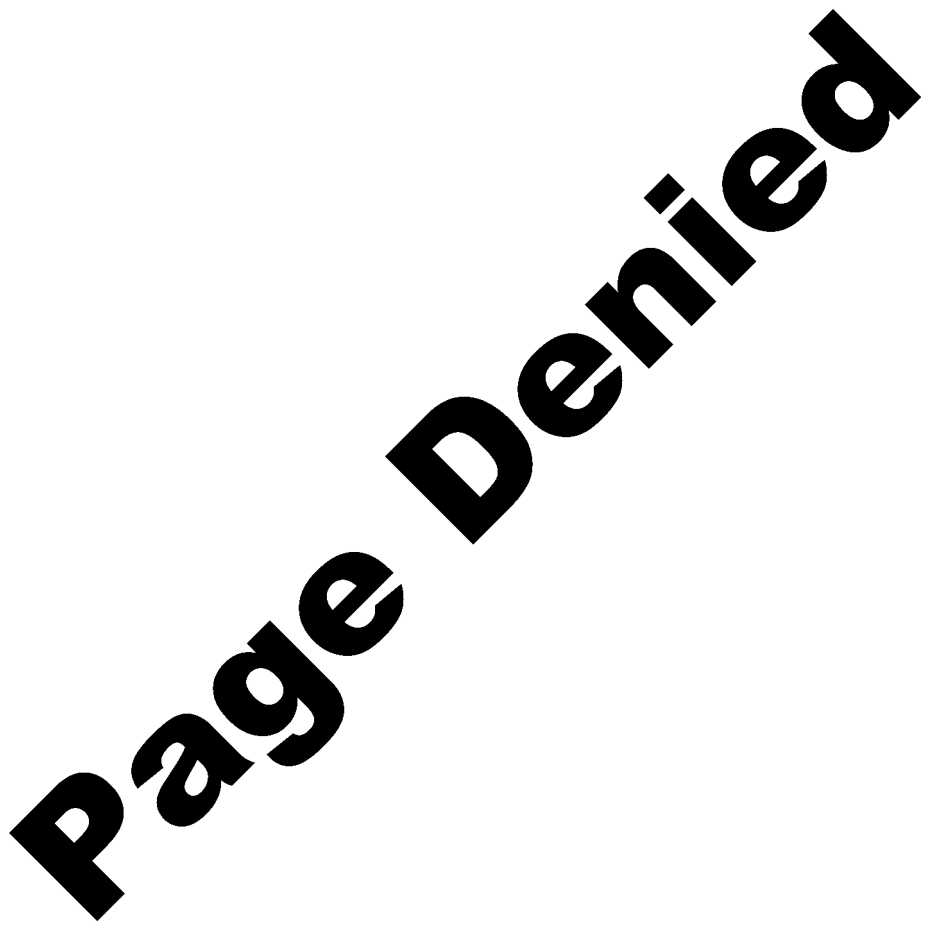

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Synopsis

Perspective—*The Human Factor in the South African Economy* 25X1

South Africa's solid record of economic growth—averaging almost 4 percent annually since 1970—has beneficial implications for all South Africans, including the black majority. However, given the magnitude of human problems—in housing, education, other public services, to mention only a few—the glacial pace at which they are being solved is clearly not enough to satisfy black South Africans. 25X1

South Africa: Organized Black Labor 25X1

Black labor unions have grown rapidly since reforms were adopted in 1979 that provided official recognition of black unions and allowed their participation in collective bargaining. Although the black labor movement has remained divided and recession has restrained worker militance, rapid increases in black union membership and the growing importance of black workers offers blacks their greatest opportunity to exert pressure for changing the apartheid system. 25X1

South Africa: Implications of Racial Demographic Trends 25X1

The South African Government will not be able to reverse demographic trends that are dividing the country into two societies: one black, with a population growth pattern and age structure strikingly similar to the Third World; one nonblack, with a population profile increasingly like those of the advanced industrialized world. 25X1

French Electronics Industry: The Chips Are Down 25X1

The Mitterrand government last year launched a five-year program to make the French electronics industry more competitive with those in the United States and Japan. We believe the Socialist plan is unlikely to reach its goals; financing almost certainly will fall short of expected levels, and the industry has long suffered from a myriad of production, management, and design problems. 25X1

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Canada: Efforts To Increase Grain Exports 25X1

Domestic demand has not kept pace with the record crops of the past two years, leaving unprecedented amounts of wheat, barley, and other grains available for export. Moreover, Ottawa hopes to increase production even more and is planning a major overhaul of the transportation system to facilitate a 20-percent increase in exports by the end of the decade. 25X1

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Perspective

The Human Factor in the South African Economy

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South Africa's solid record of economic growth—averaging almost 4 percent annually since 1970—has beneficial implications for all South Africans, including the black majority. It boosts black employment in manufacturing, mining, and other sectors of the modern economy, lifts real wages for employed blacks, and provides the wherewithal for greater government spending for education and housing. Even in the homelands, some of which are on an economic par with the poorest parts of Sub-Saharan Africa, it leads to an increase—albeit limited—in worker remittances.

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Even so, the usual macroeconomic measures of national economic performance shed only limited light on how well the black majority is faring. Given the magnitude of human problems—in housing, education, other public services, to mention only a few—the glacial pace at which they are being solved is clearly not enough to satisfy black South Africans. The black population—already 74 percent of the total—is growing rapidly while the birth rates of all other population groups have dropped sharply. The South African economy almost certainly will be unable to generate enough jobs to absorb the annual addition of black entrants to the labor force. As a result, black unemployment—already about 30 percent—will increase substantially even if the economy were to grow at a rate of 5 percent annually between now and the year 2000, a considerably faster pace than we anticipate.

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Demographic trends will also make it more difficult for the white-dominated South African power structure to enforce the complex system of laws designed to maintain white control. Even now, the segment of the white population that has the skills needed to run the government, private enterprise, and other key South African institutions is remarkably small. Eventually, there may not be enough qualified whites to do all these things.

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In an attempt to provide an orderly outlet for the discontent of black workers, the government enacted reforms in 1979 that for the first time granted official recognition to black labor unions. Since 1978, black unions have multiplied in number, and black membership has grown from 90,000 to over 400,000. Most have stressed their independence of the banned black liberation movements, such as the African National Congress. The leaders of some unions, nevertheless, clearly see themselves as spokesmen for the black community—a role which has often invited harsh repression by Pretoria.

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We do not anticipate any significant improvement in Pretoria's racial policies. Following the pattern of the 1979 labor reforms, we expect that any cautious concessions will be linked with stricter controls. Pretoria's resistance to making changes fast enough to meet black aspirations will in the long run increase the probablility of racial violence. Should large-scale violence occur, US and other Western firms in South Africa would be endangered both from direct damage and from rising pressures for international economic sanctions.

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Briefs

Energy

Energy Use Continues To Fall

Preliminary data indicate that energy consumption in six major developed countries—France, Italy, West Germany, United Kingdom, Canada, and the United States—has dropped about 5 percent in the first five months of this year—the fourth consecutive year of decline. Total use of natural gas, oil, and coal in these countries declined by 9 percent, 6 percent, and 5 percent, respectively, while nuclear power generation increased by 6 percent and hydroelectric power usage was up 4 percent. Energy consumption in Canada fell by 8 percent and US energy use was down by 5 percent. Most of the decline in Canada and the United States reflected lower natural gas and oil consumption. The rate of decline in US energy use has slowed in recent months in part reflecting the economic recovery. Total energy use in the United Kingdom and France fell less than 1 percent, while West German and Italian energy consumption fell by about 3 percent during the period. Most forecasters expect the decline in energy use to bottom out later this year as economic recovery picks up momentum outside the United States. 25X1

Japan To Trim Coal Purchases From Australia

Two major Japanese coal buyers—the Electric Power Development Company and the Japan Coal Development Company—are reportedly ready to propose a 40-percent cut in coal purchases from several Australian firms. the cutbacks will total 2.5 million metric tons per year and will cost Australia $108 million a year in lost foreign exchange. The move stems from lower forecasts of Japanese coal needs for the rest of the decade. According to the US Embassy in Canberra, the cutbacks will put pressure on both the finances of the Australian mines involved and on employment levels in the already depressed Australian coal industry. For their part, the Australians may view the action a result of US pressure on Japan to purchase additional coal from the United States to improve the US-Japanese trade imbalance. 25X1 25X1 25X1

Troll Gas Reserves Live Up to Expectations

Recent industry reports on drilling activity in the Troll field off Norway confirm the most optimistic estimates of gas reserves. The first production test of an appraisal well in West Troll yielded 3.5 million cubic meters per day of gas—one of the best test results ever claimed for an offshore gas well. In previously undrilled East Troll, the first results from two wells confirm estimates of gas reserves made last year. This makes Troll the biggest offshore gasfield in the world, with recoverable reserves of 1.6 trillion cubic meters. In addition, any oil-bearing layer in the structure of East Troll—where the bulk of the fields' gas reserves are expected 25X1

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to lie—will likely be very thin or nonexistent. Because the Norwegian Government has been concerned about oil recovery in the field, the lack of a significant volume of recoverable oil reserves in part of the field could shorten the startup time for natural gas production. 25X1 25X1

Italian Power Plant Construction Delayed

Construction of four coal-fired power plants with a generating capacity of nearly 2,000 megawatts-electric are being delayed by bottlenecks in Italy's coal transport system. The four plants are expected to consume 4 million metric tons of coal per year, but construction will be held in abeyance until the transport problems are resolved. Truck transportation has been ruled out because of the prohibitive cost and severe road congestion, and transshipment by river barge would be too costly. Rail shipment is the least expensive alternative and is preferred by ENEL, the Italian electric utility. The existing rail line, however, is single track and nearly saturated with traffic. Transport experts claim the railroads are in too poor a financial shape to afford the necessary expansion. 25X1

New Head for Venezuela's National Oil Company

Venezuela's Petroleum Minister, Humberto Calderon Berti, was sworn in last week as president of the national oil company, Petroleos de Venezuela S. A. (PDVSA); he has been replaced as Minister of Energy and Mines by his deputy, Jose Moreno Leon. Berti succeeds Alfonso Ravard, whose eight-year term as PDVSA president ended in the midst of a major scandal over the leaking of sensitive information to outside traders by company employees. Embassy reporting indicates that Berti's appointment by Venezuelan President Herrera Campins has raised a storm of controversy. Both leading presidential candidates have stated that they intend to replace Berti immediately after the December election. According to the Embassy, industry officials are afraid that PDVSA's top leadership will be unable to adequately represent the company in forthcoming negotiations over outstanding nationalization issues and oil contracts with major US oil companies. 25X1

Omani Oil Production Increase

In early August, Oman's crude oil production reached an unprecedented 400,000 b/d, up from an average 360,000 b/d in 1982. Oman's production capability was limited until recently to about 390,000 b/d because of badly corroded pipelines serving its old northern oilfields, Yibal and Fahud. Replacement of pipe around Nahada, the key junction linking Oman's oilfields with its export terminal at Mina al-Fahal, has allowed an extra 20,000 b/d of production from the northern fields. Continued repairs to the pipeline system are expected to progress rapidly, and a pipeline capacity of 450,000-480,000 b/d is forecast for late 1984. It is unlikely, however, that actual production will increase much above 400,000 b/d. While new wells are constantly being drilled and an enhanced oil recovery program will begin late this month, we believe these projects will do little more than offset declines in other areas. 25X1

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Cameroon's Kribi LNG Project Delayed

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foreign oil companies operating in Cameroon recently agreed to postpone further work on the proposed Kribi liquefied natural gas project until the 1990s. The state oil company, however, received approval from the foreign partners to assume management of the dormant project and plans to hold several meetings per year to assess West European gas markets and the possibility of resuming discussions on the project. Government officials concede that without French Government financial assistance, however, the Kribi LNG project will remain suspended indefinitely.

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International Finance

Key Brazilian Economic Official Resigns

Central Bank President Langoni reportedly resigned last week as a result of differences with other economic advisers and his objections to the IMF austerity program as "unrealistic." The US Embassy says Langoni considers the program unworkable because he believes the inflation targets are unattainable. President Figueiredo recently had expanded the authority of Planning Minister Delfim Netto at Langoni's expense. Alfonso Pastore, former Secretary of Finance in the state of Sao Paulo, is to succeed him.

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Langoni's resignation could complicate efforts to arrange a new rescue package with foreign banks. Langoni has been the principal Brazilian dealing with them, and Pastore will need time to gain the expertise and the confidence of the bankers that Langoni had. Moreover, the addition of an economic figure of Langoni's stature to the growing list of Brazilian critics of the IMF program may impede Brasilia's efforts to adhere to difficult stabilization measures.

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Dominican Republic Debt Rescheduling

Santo Domingo has reached a tentative agreement to reschedule at least $600 million owed to foreign banks and, soon will begin talks aimed at a Paris Club restructuring of its more than $1 billion debt owed to official sources. The package with international bankers, covering mostly import financing arrearages and other short-term trade credits, probably will be finalized by mid-September. In recent years, foreign exchange shortages have steadily worsened because of ballooning debt servicing obligations—the country's debt service ratio nearly doubled last year to 38 percent—and because of the prolonged slump in export earnings that has resulted from depressed international prices for sugar, coffee, and minerals, which account for over 75 percent of total exports.

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Global and Regional Developments

Decreasing Soviet Dependence on Imported Pipe

Soviet production of large-diameter pipe used for long-distance oil and gas pipelines is likely to increase substantially after 1985, reducing the USSR's almost total dependence on the West for such pipe. Construction of a new large-diameter pipe mill at Vyksa, approximately 250 kilometers south of Moscow, has been proceeding rapidly since 1978. The plant is partly operational and could be producing at full capacity by 1986. When the mill is finished, the Soviets may be able to increase production of 1,420-mm pipe to about 500,000 tons annually. 25X1

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it may be cheaper for the Soviets to import the pipe rather than to produce it with this technology. Moscow's commitment to produce the pipe, despite higher costs, probably reflects continued concern about hard currency outlays, self-sufficiency, and vulnerability to possible Western sanctions. 25X1

Construction of domestic oil and gas pipelines in the USSR probably will slow considerably after the middle of the decade, as the need for additional capacity to transport oil and gas declines. As a result, the annual Soviet requirement for 1,420-mm pipe is estimated to drop by roughly 30 percent between 1986 and 1990. The reduced requirement, combined with increased production, may allow the USSR to halve imports of the pipe by the late 1980s. This reduction could save almost $1 billion in hard currency each year. Soviet demand represents a large share of the international market for large-diameter pipe. Substantial reductions in Soviet imports might enable Moscow to exact certain economic concessions. For example, Italy and West Germany, currently major suppliers of large-diameter pipe, might be required to purchase additional Soviet gas in order to sell pipe to the USSR. 25X1

Canada Boosts Energy Development Aid to LDCs

Energy Minister Jean Chretien announced in late August that the 1984 budget of the Petro-Canada International Assistance Corporation (PCIAC) will be increased by 50 percent to nearly $50 million. The PCIAC, a subsidiary of the state-owned oil company Petro-Canada, was formed in 1981 to help developing countries reduce or eliminate their dependence on imported energy supplies. PCIAC assistance can be used for preexploration seismic studies, exploration activities, and technical training for the nationals of recipient countries in exploration, development, and production procedures. Since 1981 the PCIAC has authorized aid totaling about $57 million to Barbados, The Gambia, Haiti, Senegal, Jamaica, Tanzania, Thailand, and the Philippines. Countries receiving such aid are required to purchase a minimum amount of Canadian-produced goods and services for use in their hydrocarbon development projects.

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National Developments

Developed Countries

Key Italian Labor Contract Signed

The Craxi government cleared its first economic hurdle last week when Socialist Labor Minister Gianni de Michelis arbitrated a new national contract for Italy's 1 million private-sector metalworkers. The key to the agreement was a compromise on the union demand for reduced working hours. Management, led by Fiat, agreed to reductions of 20 to 40 hours annually in exchange for compulsory overtime. The accord, delayed for 20 months, has allowed the Craxi government to avoid any serious labor disputes early in its administration. Rome, however, now faces the difficult task of winning labor's support for its austerity program, which is aimed at reducing the current 16-percent inflation rate to 10 percent next year. Labor's cooperation will be a key to a successful anti-inflation program because unit labor costs were up 17 percent last year, the largest increase among the Big Seven. However, Italy's largest labor union, the CGIL, has already objected to a government proposal to fight inflation by holding real wages constant over the next three years.

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Spanish Floods Cause Heavy Damage

Madrid estimates that severe floods last month caused losses of $3.9 billion, involving largely the destruction of port facilities, railroads, highways, water lines, and bridges. The private sector also was hard hit, and Madrid has reportedly earmarked the first of what may be several emergency aid packages for small and medium-size concerns. Although the devastation of the heavily industrialized northern provinces may speed up the planned modernization of some factories, many financially troubled companies will probably close causing losses of perhaps 30,000 to 50,000 jobs. The process of recovering from the flood also seems certain to put pressure on Madrid's budget. This will be only partially alleviated by the receipt of about $600 million in aid from the European Investment Bank and West Germany.

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Less Developed Countries

Mexican President's State of the Union Address

In his first report to the nation on 1 September, President de la Madrid claimed that his policies are succeeding and that they will soon end further economic deterioration. Nevertheless, he called on the nation to maintain a "war footing" to address still severe inflation and unemployment problems. De la Madrid reported that Mexico ran a $2.6 billion current account surplus in the first half of the year and that international reserves had doubled to $3.6 billion since he took office. Commenting on his government's progress in restructuring the public-sector debt, de la Madrid reported that Mexico rescheduled $11.4 billion in government principal obligation on 26 August, and that he expects to sign agreements covering the remaining $8.6 billion

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subject to rescheduling in the next several months. Because of these developments, de la Madrid indicated that depressed imports would pick up during the rest of 1983. 25X1

In contrast to the dramatic takeover of the banks by his predecessor last year, de la Madrid stated that his government had no intention of nationalizing the economy and discussed his steps to reorganize the banking sector. Shortly before the speech, the administration negotiated compensation for the larger banks and consolidated the 60 previous banking corporations into 29 national credit institutions. The President indicated in the speech that Mexico City will sell some small and medium-size state-owned firms—including many of those acquired by the state when banks were nationalized—to private, preferably Mexican, investors. 25X1

The tone and content of the speech are likely to increase foreign and domestic confidence in the President's ability to stabilize the economy, bolstering support for continued tough austerity measures. We believe the speech also will reinforce public acceptance of tough austerity policies as fair and equitable. De la Madrid's recognition of business's role in the economy and his eschewing of further government control in new economic areas should reduce concerns over creeping socialism. 25X1

Nigerian Financial Problems Continue

Even with last month's $1.4 billion debt rescheduling and an anticipated $600 million loan rollover by smaller banks, Lagos has erased only about one-third of its short-term payments arrears. Moreover, bankers reportedly once again are reluctant to confirm new trade credits because of Nigeria's continued inability to make payments on time. Lagos's difficulty in getting these credits is reflected in the country's external reserves, which have fallen by 50 percent in the past month to $580 million, a 10-year low, according to Central Bank statistics. In our view, Nigeria has little chance of getting relief without an agreement with the IMF or a substantial increase from OPEC in its current oil production quota of 1.3 million b/d. 25X1
many commercial lenders are reluctant to make new loans without an IMF agreement in place; an IMF advisory team is due in Lagos for more discussions this week. Even if an agreement is signed in the near term, much-needed money probably will not be available before early next year. 25X1

Basic Services in Sudan Deteriorate

Sharp reductions in electric power, gasoline shortages, and the nonavailability of vital foodstuffs, as well as muddy drinking water, have caused student protests and increased public discontent in Khartoum. The gasoline shortages stem from the government's inability to pay for oil imports, while water and electricity problems are the result of seasonal flooding. Silt and debris carried by the Blue Nile flood waters have damaged the Roseires Dam generators, which supply two-thirds of Khartoum's power, and repairs are not expected until early October. The flooding may be partially responsible for preventing

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food items from reaching the market. Increasing dissatisfaction with the government's inability to deal effectively with these problems is likely to lead to further outbursts. 25X1

Communist

Polish Austerity Program Collapsing

The government is not carrying out parts of a consumer austerity program essential to economic recovery, apparently because it is reluctant to reduce workers' incomes too severely. The regime allowed wages to rise 29 percent during February-June, when prices rose 25 percent, permitting an increase in real wages somewhat more than planned. Early in the year it failed to enforce several measures proposed in 1982, including a cut in welfare spending and a three-year freeze on wages. At the same time, the regime prohibited many enterprises from increasing the retail prices of their products, despite reform measures in 1982 that gave firms new freedom to set prices. In June the government decided to wait until next January to pass on to consumers the cost of recent increases in procurement prices for agricultural goods. Moreover, the draft of the plan for 1983-85, approved in June, calls for annual increases in private consumption of 4 to 5 percent, instead of the 2-percent rise proposed earlier. 25X1

The wage increases may reflect the regime's lack of tight control over decisions made by enterprises. The other actions, however, suggest the government has become so concerned about adverse reaction from the workers to stagnating living standards that it has given in to their demands at the expense of correcting basic weaknesses in the economy. The decision to use production to increase domestic consumption may restrict the growth of hard currency exports—needed to service debts—to less than the 12-percent annual increase called for in the plan for 1983-85. 25X1

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South Africa: Organized Black Labor

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Black labor unions have grown rapidly since reforms were adopted in 1979 that provided official recognition of black unions and allowed their participation in collective bargaining. Although the black labor movement has remained divided and recession has restrained worker militance, rapid increases in black union membership and the growing importance of black workers offer blacks their greatest opportunity to exert pressure for changing the apartheid system.

Growth of Black Unions

The sharpest growth in black union membership since reform has taken place in newly established independent black unions; about 80 percent of total black union membership belongs to independent unions. The remaining unions—or so-called parallel unions—were established for blacks by existing white and mixed race (nonblack) unions. In our judgment, well over 400,000 blacks could claim to be represented by a trade union in early 1983, including at least 40 independent black unions.[1] Despite rapid membership growth, however, only about 6.5 percent of the black work force is unionized.

The greatest growth in black union membership has been in the areas around East London and Port Elizabeth in the eastern Cape Province, where the automobile assembly and the textile industries are well organized. Black organizing efforts also have been successful among dockworkers and in the food and canning industry, and progress has been made in the Transvaal metals industries.

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Unions also are gathering momentum in the economically important mining sector. Last year, three unions—including two independents—began to organize and recruit among the nation's nearly 500,000 black miners. Earlier this year the most successful of the three unions—which claimed 30,000 members—was recognized officially at eight gold mines and conducted successful wage negotiations in July that affected all black miners.

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Black unions have not made significant inroads into the construction industry, nor have they enjoyed success in organizing the public sector—including South Africa's giant parastatal corporations. Blacks make up only 50 percent of the work force in the public sector because of Pretoria's longstanding support for employment of Afrikaners.

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Deeply rooted differences among black unions present continuing obstacles to achieving unity within the black labor movement. The proliferation of black unions in recent years represents, in part, the focus by some on political objectives and the stress of others on economic issues.Most independent black unions have, so far, pursued relatively moderate and apolitical trade union objectives. They have concentrated on wages and recognition agreements and have worked as much as possible within the government's registration and bargaining system.

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[1] Large discrepancies between paid-up and signed-up membership and incomplete reporting by the independent black unions makes a precise membership count difficult. Paid-up members often amount to no more than half the signed-up number. In our view, support for unions among black workers probably is far wider than even signed-up membership indicates because of lingering fear on the part of many blacks of being openly associated with an independent union.

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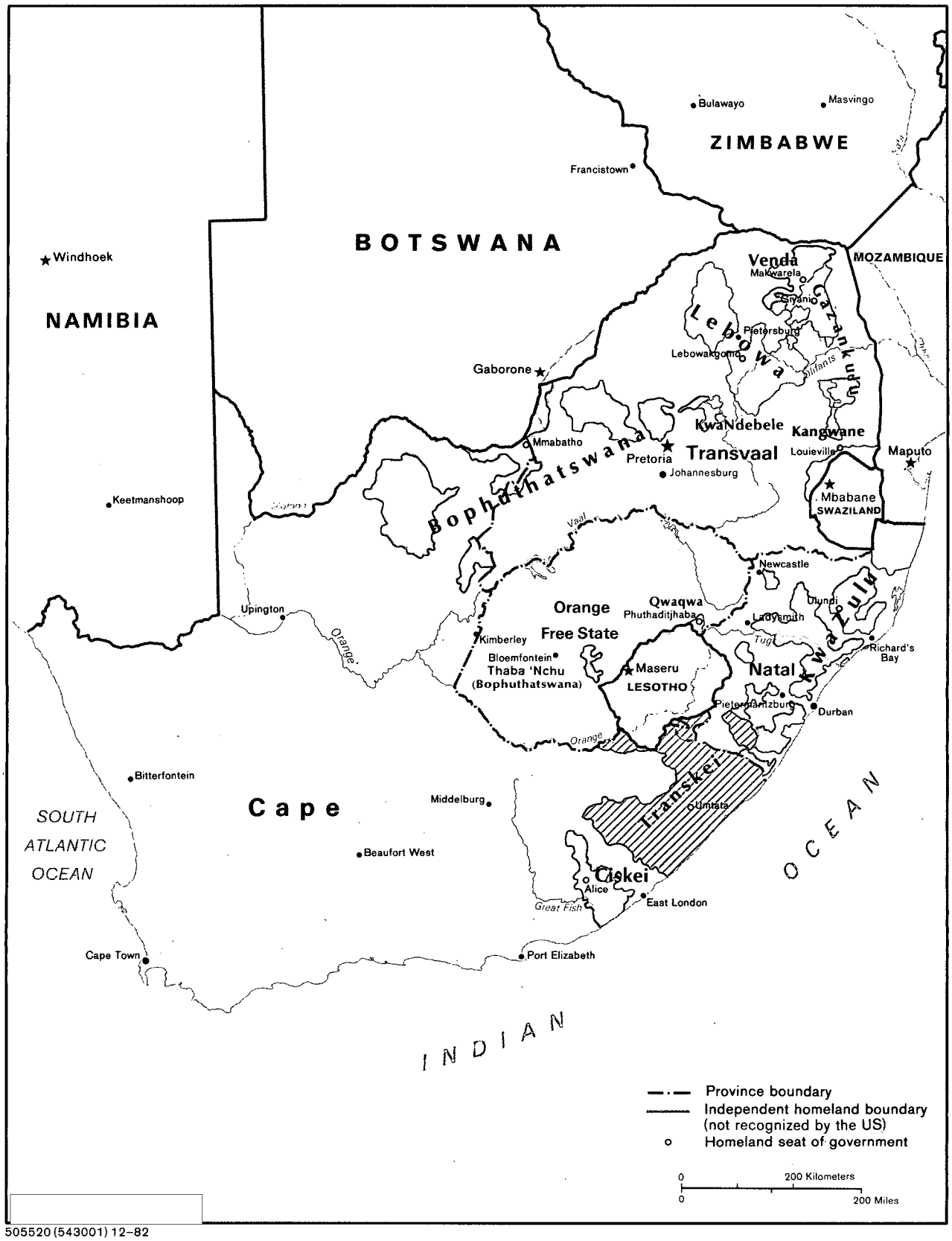
South Africa: Black Homelands



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Although conditions in South Africa make political expression by blacks dangerous, these same conditions make many labor issues almost indistinguishable from political ones and have compelled virtually all black unions—from militant to moderate—at least to verbalize a political stance in order to establish credibility in the black community. The hallmarks of the more politically oriented independent unions have been their refusal to register with the government, their rejection of the state's bargaining apparatus, and their emphasis on direct worker participation in union affairs—as manifested in their preference for shopfloor rather than industry-wide bargaining.

Union Performance

South Africa has complex official machinery for collective bargaining and industrial dispute resolution. Although white and parallel unions favor participation in the official system, few of the independent black unions have been willing so far to engage in the lengthy and cumbersome official process, which can delay resolution of a grievance for months. Independent unions have preferred instead to negotiate through shopfloor bargaining with individual employers, where their strength is relatively greater. They have also been suspicious of mediation and arbitration, which they see as additional devices for removing authority from workers.

The primary weapon in disputes has been to strike, but union tactics in disputes have also included appeals for international pressure against multinational firms and the use of consumer boycotts against domestic producers. The number of strikes and work stoppages has risen dramatically since 1979, although their pace and average duration slowed substantially by the end of last year after the onset of a sharp and deep recession.

Although wage demands have been the principal issues in job actions by black unions, other issues—including local shopfloor grievances—have also triggered walkouts and strikes, as have government actions such as an attempt in 1981 to reduce worker control over pension contributions. So far, no workers have gone on strike over larger, nonworkplace issues such as influx control laws. Nor has South Africa yet experienced an industry-wide strike by blacks, although one was threatened last year against the nation's docks. We and other observers believe that union leaders fear the government crackdown that such an action might provoke—especially if the strike were in a strategic industry. Because of South Africa's recession, now in its second year, unions are more concerned about jobs—press reports indicate as many as 800,000 layoffs of blacks in the past two years—and have turned their attention to such issues as job security, layoff procedures, and severance pay. 25X1 25X1

White Response

Pretoria has been accommodating toward unions that have confined their activities to work-related issues but has reacted harshly toward those unions that have engaged in political activity, especially those that it suspects of having ties to the African National Congress, an outlawed black liberation group. Pretoria has worked to prevent the development of a dual system of industrial relations where some unions would be unregistered and outside the official system, but, as the growth of unregistered unions and the rapid evolution of actual bargaining practices have shifted negotiations to the company level at the expense of the official system, government policy has tended recently to accept these trends. 25X1 25X1

Nonetheless, Pretoria has frequently found itself overtaken by rapid developments in black labor activity and, fearing loss of control, has reacted aggressively. Repressive measures have included arrests and bannings, stepped-up prosecution of strikers, new security legislation, and tightened enforcement of influx control. Detention of union officials has been the most common tactic employed, although the majority of those arrested or detained have eventually been released. Among 25X1

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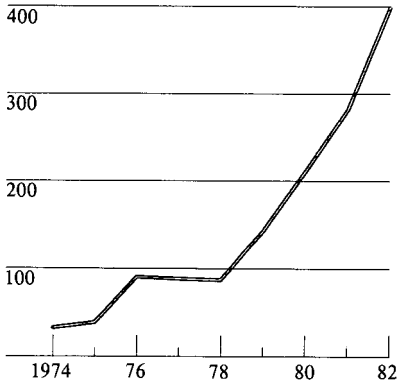
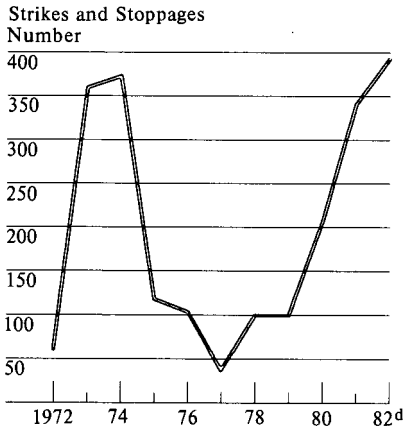
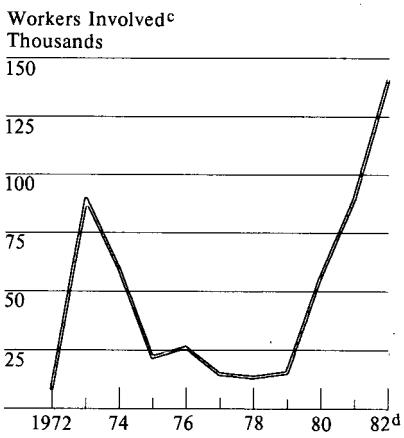
South Africa: Organized Labor

Membership in Independent Black Unions, 1974-82[a]



Black Strike Activity, 1972-82[b]





[a] Estimated.

[b] Data have been drawn from a number of open sources and may differ from official South African Government statistics which include only those incidents reported to the Ministry of Manpower.

[c] Data are rounded to the nearest hundred.

[d] Not including 100,000 workers who participated in a brief work stoppage over the death of union organizer Neil Aggett.

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unions generally acknowledged to be the top targets of harassment are those making efforts to mobilize community action to protest such issues as increases in rents and transport fares, and those suspected of ANC ties.

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Pretoria has enlisted the willing support of black homeland authorities in carrying out its harassment. Among the so-called independent homelands—where many workers live—only Bophuthatswana has introduced legislation to permit trade unions within its borders. The others—Ciskei, Transkei, and Venda—have been openly hostile to unions.

For many firms, acceptance of independent black unions has been a process of gradual, sometimes reluctant adjustment to new realities. Other firms have continued to resist black unions, and recession has strengthened their hand. Nonetheless, as employers have found the cost of rising labor unrest less acceptable than black unions, some elements of the business community have become more flexible. Multinational firms have frequently taken the lead in negotiating with black unions—both as the price of labor peace and as part of their public relations effort.

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An exception to greater employer acceptance of black unions has been South Africa's huge parastatal and largest employer, the South African Transport Services (SATS), whose operations include the nation's railways and harbors.Confronted last year with a demand for recognition by an unregistered union that had organized black dockworkers at the country's four major ports, SATS—backed by the government—refused to negotiate. Pretoria was loath to appear weak in dealing with a militant and unregistered black union—especially since the powerful white unions at SATS represent 10 percent of the white electorate.

While some white unions have reacted favorably to reform, rightwing unions have continued to resist every aspect of labor reform. Whites in semiskilled, blue-collar jobs probably feel most threatened by training, advancement, and organization of blacks. By far the most reactionary segment of organized white labor is represented by the White Mine Workers' Union (MWU), among the most conservative of Afrikaner groups. Its struggles in the past for protection against cheap black labor have shaped current attitudes, and it views the establishment of black unions as a direct threat to white privilege. Though there has yet to be violence between white and black workers as a result of a labor dispute, we believe it is a possibility that concerns many employers.

White labor also has become increasingly susceptible to blandishments from the political right, leading to many defections from support of the ruling National Party and serious challenges from rightwing parties. Moreover, conservative protest against labor reform has now grown into broader political opposition to the government's current proposals for constitutional reform.

Outlook

In our view, the growing importance of black workers in the economy offers blacks the greatest opportunity to exert pressure for changing the apartheid system. In the near term, however, organized black labor probably will continue to be buffeted by conflicting economic and political pressures. Continued recession will encourage a shakeout in which poorly organized unions that ignore workplace issues will not survive. Unions will be attempting a difficult balance between gains already made and maintaining both organizational momentum and worker commitment. Still, when economic recovery begins—probably by mid-1984—employers are likely to be subject to increasing economic demands. Strikes probably will continue at their recent high levels, but, over time, their frequency may diminish as unions become willing to submit disputes to mediation and arbitration—a development we see as likely. 25X1

The exceptional growth in black membership experienced in 1982 in spite of the recession suggests that an upturn in the business cycle will accelerate further the growth of black unions; there also is likely to be increased testing of member loyalty as independent black unions compete with each other and with white-dominated parallel unions. We believe that prospects are poor in the near to medium term for a successful unity effort among major elements of organized black labor, but that independent black unions will fare well in competition with parallel unions. 25X1 25X1

In the absence of other organized outlets for political expression, unions also will continue to play a role as spokesmen for the black community. While some labor leaders will feel constrained by the state's powers of unlimited detention and banning, others will no doubt continue to test the line between tolerable and excessive involvement in nonworkplace issues. For its part, Pretoria is almost certain to crush unions it perceives as too politically militant, or those whose actions threaten serious disruption to key economic sectors such as mining or transport. 25X1 25X1

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US firms operating in South Africa—with a total investment of $2.6 billion—have long been in the forefront of corporate efforts to reduce racial discrimination in the workplace and to improve the lot of black workers. In our view, US firms will look increasingly to Washington for guidance on the direction of US policy toward South Africa. This will be especially true with respect to the status of the US policy of constructive engagement, which is unpopular with many blacks. Pretoria, however, is likely to continue to resist any attempts by US or other foreign investors to meddle in what it perceives as its internal affairs. Similarly, a US-funded AFL-CIO program of support for South African unions that began recently could easily become a source of bilateral tension, especially if Pretoria perceives the program as an encouragement of black labor militance. 25X1

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South Africa: Implications of Racial Demographic Trends

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The South African Government will not be able to reverse demographic trends that are dividing the country into two societies: one black, with a population growth pattern and age structure strikingly similar to those in the Third World, and one nonblack, with a population profile increasingly like those of the advanced industrialized world. The South African economy almost certainly will be unable to generate enough jobs for black entrants to the labor force, and we do not expect the government to develop a concerted program to create more jobs for blacks; black unemployment—already about 30 percent—will grow substantially. The most disruptive group is likely to be young black males, whose ranks are expanding by 3 percent annually. Although the government's security apparatus is likely to thwart any internal challenge in the near term, we believe the potential for violence and instability will increase in the long run.

Overall Population Trends

South Africa is a microcosm of world demographic trends. Between now and the year 2000, we expect that 84 percent of the population growth in South Africa will be accounted for by blacks, compared with 94 percent in the Third World. By contrast, there has been a sharp slowdown in the growth of the white, Colored, and Indian communities in South Africa so that their population profiles are becoming similar to those in the industrialized world.[1]

[1] We use the terms "black" and "white," respectively, to designate people of African and European origin. We use the South African term "Colored" to refer to people of mixed race; in South Africa, "Colored" also includes ethnic Malays. The term "Asian" generally is used in South Africa to denote people from the Indian subcontinent; we use the term "Indian" to describe this group because there are few other Asians in the country.

South Africa: Population Trends

	Mid-1983		Projected for 2000	
	Million Persons	Percent	Million Persons	Percent
Total	**30.9**	**100.0**	**44.9**	**100.0**
Blacks	22.7	73.5	34.5	76.9
Whites	4.7	15.2	5.8	12.9
Coloreds	2.7	8.7	3.5	7.8
Indians	0.8	2.6	1.1	2.4

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The strains facing South Africa because of the rapid growth of its black population are similar to those facing Third World countries everywhere—high unemployment, rapid urban growth, growing population pressure on the land, and pressures on a wide range of public services. In South Africa, however, these trends are given a unique twist by the country's political and social structure, which is based on white supremacy and stratified according to race.

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Major Population Trends According to Race

Blacks. Black fertility is driving South Africa's overall population growth. The annual rate of natural increase—the excess of births over deaths—among blacks reached a peak of 3.4 percent in the 1960s; since then it has fallen to 2.7 percent, still well in excess of the 2.1 percent

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recorded by the Third World as a whole. As a result, the South African black population surged from 10.9 million in 1960 to 22.7 million today and increased from 68 percent to 74 percent of the population during the same period.

By the year 2000, we expect the annual rate of natural increase of blacks to fall to 2.2 percent because of a large drop in fertility and a modest drop in mortality. The rate would be higher if the South African Government undertook a massive effort to improve health conditions for blacks, which would reduce their still relatively high mortality rate. We expect no such intervention, however, because of the cost and because the government has no interest in having the number of blacks rise any faster.

Whites. The white population—currently 4.7 million—is growing slower than any other racial group in South Africa. During the 1970s, widespread use of birth control techniques caused the birth rate to fall rapidly. This reduced the annual rate of natural increase among whites by 1980 to about 0.9 percent.

Historically, migration has affected population trends more among the whites than other groups. A net inflow of over 550,000 immigrants accounts for about one-fifth of white population growth since 1940. There have been only a few postwar years of net emigration, notably after the Sharpeville "massacre" of 1960 and following the Soweto riots of 1976.

Coloreds. The population growth rate among Coloreds, who now number 2.7 million, has fallen sharply since the 1950s—from an annual rate of natural increase of approximately 3.5 percent to the current rate of 1.8 percent. This change was facilitated by the government's provision of birth control information and materials; Coloreds use contraceptives at a rate second only to whites, according to official South African sources. Because of these trends, we expect the Colored rate of natural increase to decline by the year 2000 to about 1.2 percent annually.

Indians. The pattern of population growth among the Indians, now some 800,000 persons, has closely paralleled that of the Coloreds except that a surge of immigrants from India during the late 1940s led briefly to an annual growth rate of about 4.6 percent. The Indian rate of natural increase held steady at about 2.5 percent annually from 1950 until 1970, when it began to fall, probably largely because of the availability of more effective birth control techniques. We expect that the recent drop in the birth rate among Indians will cause the Indian rate of natural increase to decline from 1.7 percent in 1980 to about 1.3 percent annually by the year 2000.

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Employment Outlook

Unemployment in South Africa is essentially a black problem; white unemployment is less than 1 percent, and Colored and Indian rates are not much higher. During the 1970s, the number of employed whites, Coloreds, and Indians grew faster than the total population of each of these groups, but the black population grew significantly faster than the number of wage-earning blacks. We believe—on the basis of recent Embassy reporting and our own analyses—that approximately 30 percent of South Africa's black population is unemployed.

We expect that black unemployment will rise steadily because economic growth will be insufficient to absorb continuing large additions to the labor force. We believe real economic growth will average 3 to 4 percent annually over the near term, substantially lower than the 6-percent rate that Pretoria believes necessary to absorb the number of blacks entering the job market each year. That number is currently about 225,000, but by the year 2000 it will be about 350,000. Even if the rate of economic growth exceeds our expectations and rises to 5 percent annually between now and the year 2000, black unemployment would climb to at least 35 percent. We do not anticipate a major push by the South African regime to create more jobs for blacks.

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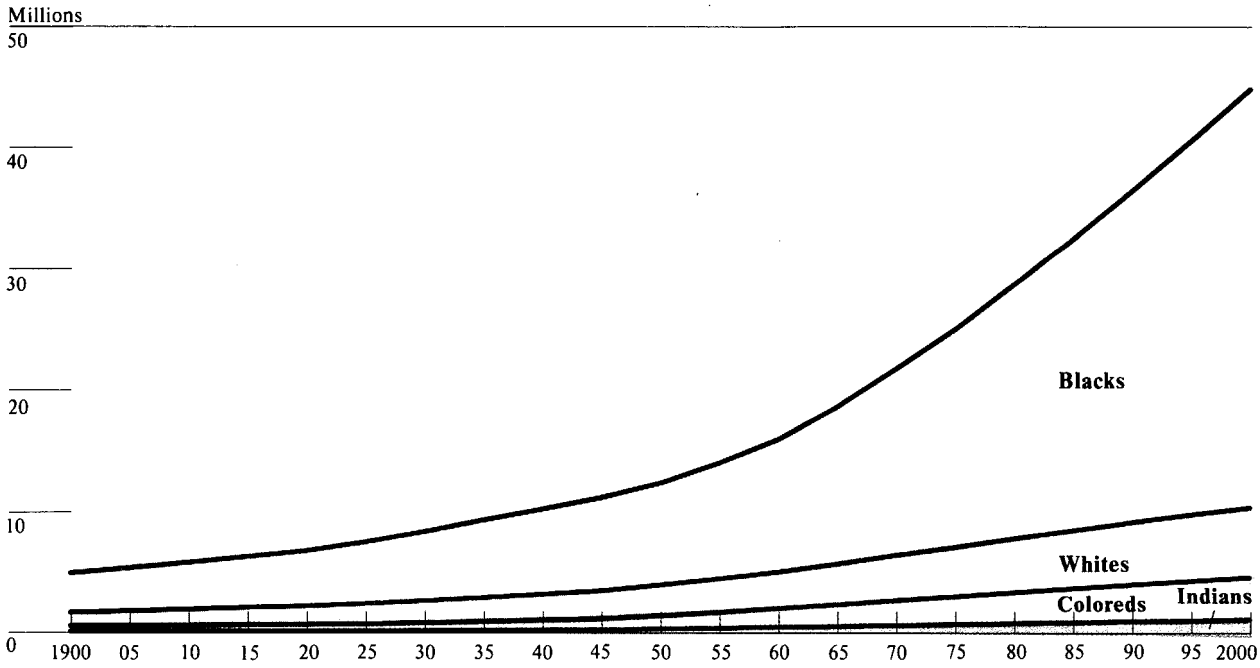
South Africa: Population by Race



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Pressures on Housing and Public Services

Housing. Black population growth will aggravate an already serious housing shortage—particularly in urban areas. We expect the number of urban blacks—currently 9.1 million, or 57 percent of the total urban population—to continue to expand at a minimum rate of 4 percent annually, at least until the year 2000. The current housing shortage in urban areas—estimated by a South African research organization to be about 600,000 units—is exacerbated by a need for an additional 100,000 units annually just to keep up with black population growth.

Education. The huge increase in the number of school-age black children will generate demand for more schools and teachers. We believe that South African whites and other non-black taxpayers would balk at a tax increase sufficient to bring black education to anywhere near the quality available to whites. The government's widely publicized commitment to improving black education nevertheless is being supported by an 18-percent increase in the budget for black primary and secondary level education for fiscal year 1983-84. According to Pretoria's own figures, however, spending per black pupil is only about $175 a year, about 10 percent of the amount spent per white student.

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Other Public Services. Only a small portion of South African blacks have access to public utilities such as piped water, sewerage, or electricity. In Soweto, the largest South African black city, perhaps 15 percent of the houses have indoor plumbing and only 20 to 25 percent have electricity. Residents of other black townships have complained that Soweto has received the lion's share of public utility investments since the riots there in 1976; the situation is worse in rural areas.

The quality of health care is largely determined by race. The doctor-patient ratio varies between 1:600 (comparable to that in the United States) among whites and 1:40,000 (comparable to that in Chad) in the black homelands.

Pressures on the Land

Demographic trends will add to existing population pressures in the homelands, where about half of the black population lives. The forced removal of 2.3-3.5 million blacks from "white cities" to the homelands since 1948—in addition to normal population growth—has caused severe overcrowding there. If the government tightens controls on black migration to the cities, demographic pressures will aggravate social and economic problems in the homelands.

Potential for Instability

We believe that social tensions will intensify because of the problems that will accompany the continued expansion of the black population. To date, the overall pattern of racial unrest has been one of largely spontaneous local eruptions over specific local grievances—most frequently related to housing, public transportation, labor, and school issues. Lacking overall leadership, the disturbances generally have been easily quelled by the police. As the black population grows, however, and pressure on the land, the cities, and public services intensify, the pace and scope of unrest are likely to increase.

In our judgment, black education in particular will remain a potentially explosive issue—the uprising in the black township of Soweto near Johannesburg in June 1976 was triggered by an official attempt to compel blacks to study Afrikaans and was sustained for months largely by disgruntled secondary school students and dropouts. Even if Pretoria carries out its promises of better education for blacks, the chances for at least sporadic violence probably will increase because of heightened black consciousness of their inferior social, economic, and political status

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In our view, the most disruptive single group is likely to be composed of young black males, whose ranks are expanding at a rate of 3 percent annually. Dissidents from this group led the rioting in Soweto, and they probably provide the bulk of recruits for South African black nationalist groups. According to a recent South African survey, nearly half of the young blacks view violence as a legitimate way to challenge the white power structure. Even though the government's security apparatus is likely to be able to thwart any internal challenge in the near term, the potential for violence and eventual instability will increase as the black population swells and social and economic strains intensify.

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Demographic trends will also make it difficult for the white-dominated South African power structure to enforce the complex system of laws designed to maintain white control. Even now, the segment of the white population that has the skills needed to run the government, private enterprise, and other key South African institutions is remarkably small: only 2 percent of the adult whites in South Africa were university graduates as of 1970. Moreover, if the security situation in South Africa deteriorates seriously, we believe that many whites—especially English-speakers—would emigrate, thus worsening the shortage of skilled personnel.

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French Electronics Industry: The Chips Are Down

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The Mitterrand government last year launched a five-year program to make the French electronics industry more competitive with those in the United States and Japan. The program includes industrial restructuring, protectionist trade policies, technology acquisition, and $17 billion in government and private funding. We believe the Socialist plan is unlikely to reach its goals; financing almost certainly will fall short of expected levels, and the industry has long suffered from a myriad of production, management, and design problems.

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The Program

President Mitterrand, concerned that the French electronics industry [1] was losing ground to foreign competitors, instituted an ambitious five-year program last summer to revitalize the industry. The goals of the program are to:

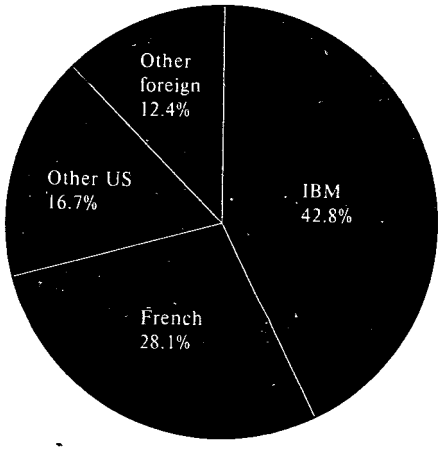
- Shift the growing $1.4 billion electronics trade deficit to a $3.7 billion surplus by 1990.
- Create 80,000 new jobs in the electronics sector.
- Make France the world's third-largest electronics supplier, particularly for computers and semiconductors.
- Triple the growth rate of electronics production and reach a sales volume exceeding $20 billion by 1986.

To implement the program, Paris is moving on a wide variety of fronts:

[1] Includes consumer electronics, semiconductors, test and measurement equipment, telecommunications, data processing, office automation, and computer services.

France: Computer Installed Base, 1981

Dollar value



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- *Industrial Reorganization.* Paris has restructured the electronics sector so that all French efforts in a particular product group are centered in a handful of nationalized firms to improve coordination of research and development and reduce what the government considers wasteful competition. Compagne International pour L'Informatique–Honeywell Bull (CII-HB), which accounts for 27 percent of the French-installed computer base, for example, has been given the lead role in the computer industry; Thomson-CSF and Matra-Harris have been assigned similar roles in semiconductors.

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- *Government Funding.* Paris has proposed a $17 billion (140 billion francs) [2] capital investment and R&D program for 1982-86. The government and the nationalized firms are to fund $10.4 billion of the program and the private sector is scheduled to provide $6.7 billion. According to government estimates, funding for the computer and semiconductor industries will amount to roughly $3.7 billion; most of the remainder will go to telecommunications. Few details are available concerning further spending breakdowns. According to a US Embassy source, about $4.9 billion will be allocated for new capital equipment.

- *Research and Development.* The government, which already controls about 90 percent of the electronics industry's R&D facilities, plans to quadruple its 1983 R&D spending to $232 million, about 6 percent of its total civilian R&D budget. [redacted] In the semiconductor industry, 60 percent of total spending will go for research and 40 percent for capital equipment.

- *Trade Barriers.* The Mitterrand government, like its predecessors, has resorted to protectionist measures—particularly restrictive procurement policies—to enhance the development of the domestic electronics industry. According to Embassy reporting, pressure to "buy French" is increasing, especially for advanced computers. Government purchasing agents, for example, are prohibited from buying computer systems that do not contain integrated circuits manufactured by government-approved suppliers. Preference is given first to French companies, followed by foreign partners of a French company, and finally to West European and other suppliers. According to a French Government report, buy-French policies have resulted in 63 percent of the government's installed computer base being of French origin.

Government and Private Five-Year Funding Program, 1982-86 *Million US $*

Total	**17,074**
Computers	1,585
Electronic components	1,220
Consumer electronics	854
Office machines	305
Software and services	549
Industrial computers and automation	366
Space program	1,829
Professional electronics [a]	3,049
Telecommunications	6,707
Scientific and measuring instruments	244
Medical electronics	366

[a] Including military and civilian goods such as radar.

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- *Joint Ventures.* French firms, at government direction, are aggressively seeking to acquire technology through cooperative agreements with foreign firms, particularly US companies. [redacted] 25X1 25X1

Obstacles to Success

Despite the Mitterrand government's efforts to put the electronics industry on a more competitive footing, the five-year program probably will not meet its objectives. From the outset, financing of the program has been in doubt. Government spending for 1983-84 will probably fall far short of

[2] The exchange rate used throughout this article is 8.2 French francs = $1. [redacted] 25X1

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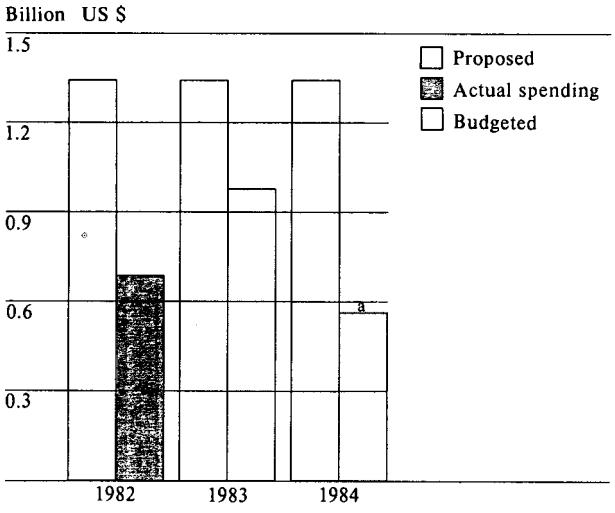
France: Electronics Industry, Government Funding



[a] Estimated.

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proposed levels. Private investment is unlikely to make up the difference; the forecast for the economy is stagnant growth and declining investment this year and, at best, a slow recovery next year.

Compounding the likely financing shortfalls are a number of other problems that have long plagued French electronics. Among the most serious are:

- *Poor Systems Design.* Matra-Harris has been unable to design original semiconductor products such as complimentary metal oxide semiconductor (CMOS) devices and must either copy or seek a cooperative venture with US suppliers in order to develop a microcircuit.

- *Inadequate Production Volume.* Lack of high-volume sales has restricted French economies of scale in key electronics industries. In the semiconductor and computer industries, for example, the French have not been able to generate sufficient sales volume to realize production economies. 25X1 computer production declined by 5 percent in 1982.

- *Managerial Weaknesses.* Existing problems have been intensified by poor management. Appointments to key positions in nationalized firms have, at times, been influenced as much by political factors as by a candidate's business acumen. 25X1 25X1

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- *Bureaucratic Fragmentation.* Implementation of the electronics program is being hindered by poor coordination. Primary responsibility rests with the Ministry of Industry and Research, but policy differences among it and the Defense, Trade, and Labor Ministries have prevented movement on some programs. Indeed, according to US Embassy reporting, Paris, as part of a general effort to 25X1

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scale back public expectations of what industrial policy can accomplish, has quietly abandoned plans for a far-reaching industrial policy law, which would have concentrated greater power and resources in the Industry Ministry. The fragmentation extends to lower levels. The French program to introduce computers into schools, homes, and businesses, for example, is being overseen by roughly 40 public and quasi-public agencies with overlapping jurisdictions and poorly defined areas of responsibility.

The Outlook

The Mitterrand government's efforts to boost competitiveness in electronics will probably strengthen the industry, but the prospects for major market gains and technological breakthroughs are dim. Without substantially increased government and private financing, the five-year program stands little chance of raising output significantly. As it is, French electronics output—$13.2 billion in 1982—was less than 5 percent of world production. The United States, in comparison, accounted for almost 50 percent of global output. According to French industry estimates, real growth in the French electronics industry in 1983 will be only 2 to 4 percent, compared to the government target of 9 percent. This will probably dampen any plans for large increases in private investment, and the government appears unlikely to back its rhetorical support with substantially more funding. Although Mitterrand had earlier stated that the 1984 austerity budget will not sacrifice industry, the US Embassy reports that the government's 1984 industrial policy budget will almost certainly be significantly lower than the $9.8 billion level in 1983, and that allocations to the nationalized sector are likely to be cut by 50 percent. The uncertain status of government backing has been further increased by the cabinet reshuffle in late March.

Ministerial Changes

The cabinet reshuffle in late March underscores the evolving nature of French industrial policy and has added a degree of uncertainty to any evaluation of the government's program. Former Research and Industry Minister Chevenement was an ideologist who strongly advocated state intervention and unprecedented direct control over industrial decisionmaking. Under his leadership, government efforts were concentrated on the nationalized groups. Chevenement's departure from the cabinet was due in part to Mitterrand's dissatisfaction with his heavyhanded meddling in company decisionmaking processes. His successor Laurent Fabius, on the other hand, has asserted that he will adopt a pragmatic approach and has scaled down government rhetoric on industrial policy. In public interviews, Fabius has emphasized that while nationalized firms will play a role in French industrial development, he also sees a major role for medium and small enterprises in job creation and innovation.

Under Fabius's direction, the electronics program has already undergone a major organizational change. Fabius has transferred responsibility for major portions of the electronics plan, including computers, to the Directorate General for Telecommunications (DGT) in the Post and Telecommunications Ministry, which falls under his control. Although access to additional funds was the primary motive for the move, it has also been justified by the DGT's success in developing the telecommunications sector through a combination of directed investment and procurement practices that favored French suppliers. The DGT, with the largest civilian procurement budget in the government, can be expected to take a similar approach in developing its new domain.

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The fall in the value of the franc could eventually help some segments of the industry boost exports. Should French exporters, however, follow past practices of raising prices to increase profits, the weakened franc may prove to be only marginally beneficial. In addition, nonprice factors such as poor performance, low quality, and inadequate production and marketing capabilities could limit exports. [redacted] 25X1

We do not believe that the Socialist program poses a significant challenge to US electronics firms in most international markets, although it could increase obstacles in trading with the French themselves. "Buy French" procurement policies probably will be maintained, and Paris is likely to require technology transfer as a condition for US companies to operate in France. We expect the impact of these policies on US companies, however, to be limited by French firms' inability to supply the quantity and quality of products demanded. [redacted] 25X1

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Canada: Efforts To Increase Grain Exports

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Ottawa has intensified its efforts to boost grain exports. Domestic demand has not kept pace with the record crops of the past two years, leaving unprecedented amounts of wheat, barley, and other grains available for export. Moreover, Ottawa hopes to increase production even more and is planning a major overhaul of the transportation system to facilitate a 25-percent increase in grain exports by the end of the decade. Ottawa has displaced US wheat sales in some foreign markets by providing credits for grain purchases and undercutting US prices.

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Expanding Export Markets

Canada has long been the world's second-largest grain-exporting nation. About 75 percent of Canada's total wheat production is sold abroad, accounting for approximately 20 percent of world wheat trade. In addition, about one-third of the coarse grain produced—mostly barley—is exported.

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Total grain exports have more than doubled since 1975, reaching 29 million metric tons for the 1982/83 crop year (MY 1983).[1] Wheat exports alone amounted to 22 million tons despite some labor problems at Vancouver and rail transport delays through the Rockies because of bad weather. We expect that MY 1984 exports will match this year's total. Although world grain markets are shrinking, Esmond Jarvis, chief commissioner of the Canadian Wheat Board (CWB), is confident Canada can "stay in there with the rest of them" through increased marketing efforts.

Nearly half of the MY 1983 grain exports were committed to purchasers under long-term agreements (LTAs) prior to the start of the year. We estimate that under current LTAs Canada has contracted to supply up to 15 million tons of grain to various countries annually for the next two years. In addition, traditional customers like Japan and the United Kingdom probably will continue to account for approximately 3.5 million tons annually, leaving 10-14 million tons of grain uncommitted to any purchaser each year.

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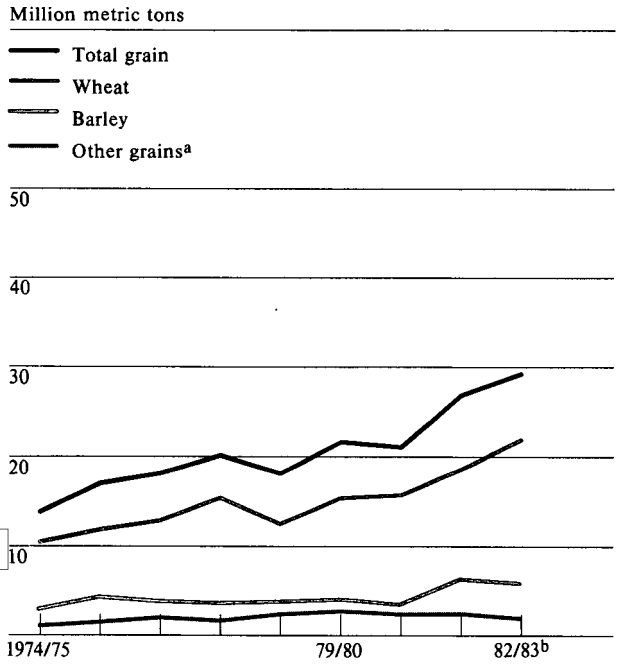
Canada: Grain Exports



[a] Other grains include oats, rye, flaxseed, and rapeseed.
[b] Projected.

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[1] Due to Canada's later growing season, the Canadian marketing (crop) year runs from August through July.

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Canada: Share of World Wheat Markets [a]

Percent

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Total	**20.3**	**21.8**	**18.8**	**17.4**	**18.1**	**17.4**
European Community	54.8	54.7	43.9	40.8	49.9	43.0
Other Western Europe	14.8	13.8	16.4	12.7	5.4	6.8
USSR	25.3	25.4	36.8	16.9	27.9	24.4
Eastern Europe	22.4	17.4	13.9	27.5	20.7	23.8
Middle East	5.4	12.3	3.4	5.4	6.5	8.3
Africa	14.7	17.6	9.1	14.6	12.5	8.6
Asia	21.0	22.8	20.6	18.2	15.9	15.5
South America	18.4	15.4	17.1	12.8	19.3	15.0
Central America	88.2	58.0	49.3	56.8	46.4	66.9

[a] Data based on a July to June crop year.

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Ottawa is planning to increase grain exports by a total of nearly 25 percent over the decade; it has set targets of 31.5 million tons by 1985 and 36 million tons by 1990. Meeting these goals will require improvements in three areas:

- Grain production.
- Grain transportation and handling facilities.
- Marketing efforts.

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Grain Production

Canadian grain production has increased 75 percent over the last eight years. After setting a record in MY 1982, production in MY 1983 rose by an estimated 10 percent to 49 million tons. An 11-percent increase in wheat production accounted for most of the growth; output of barley and oats each grew more than 5 percent. Larger plantings by farmers and good weather contributed to the excellent harvest, although an early frost reduced the quality of grain slightly. One major grain company predicts grain production will decline slightly in MY 1984, to 47 million tons. Of the major grains, the wheat crop is likely to reach a record 28 million tons while barley output may drop 15 percent to 12 million tons—due mainly to the large carryover from last year's exceptional crop, which discouraged farmers from planting barley this year.

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Government Support

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Ottawa promotes grain production by setting guaranteed floor prices before the start of the season. When farmers deliver their grain, they receive the guaranteed price less rail freight charges and handling costs at rural elevators. As the grain is resold during the marketing year, the payments received are put into a pool for each type and grade of grain. Any surplus in the pool, after deducting marketing expenses and the initial payments, is then distributed to the farmers.

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The guaranteed-price program is intended to reduce farmers' risks, not to give them an above-market price for their grain. Ottawa aims for the

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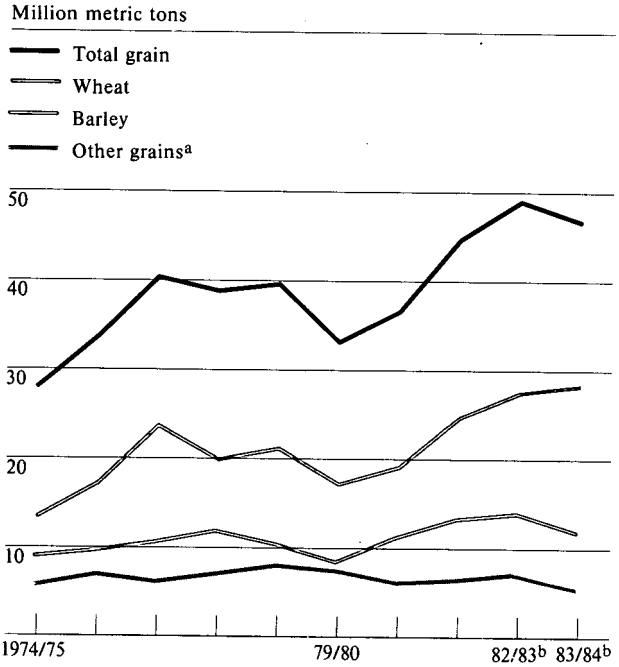
Canada: Grain Production



[a] Other grains include oats, rye, flaxseed, and rapeseed.
[b] Projected.

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grain to be sold in world markets at a price sufficient to cover the payments to farmers plus the operating expenses of the CWB, which oversees the marketing of the grain. The guaranteed prices thus are adjusted in line with expected world prices. In August the guaranteed prices were reduced from US $3.65 to $14.60 per ton, depending on the grain; barley prices, for example, fell from $89 to $77 per ton.

Ottawa also helps grain producers by providing subsidies for grain handling and transportation—$1.5 billion during 1971-81. Much of the money has gone for rail line rehabilitation, the purchase of new hopper cars, and the maintenance of branch lines necessary to reach rural grain elevators. In addition, the government holds railroad charges for transporting grain far below actual costs.

Canadian officials have paid lipservice to reducing world grain stocks in order to boost prices, apparently to please Washington. For example, the CWB chairman recommended in April that Canadian farmers cooperate with US efforts by seeding 1.0 million fewer hectares of wheat and barley. Unlike the United States, however, Ottawa did not offer farmers any incentives to reduce production, and Canadian farmers increased wheat planting by 9 percent this year and introduced higher yielding wheat varieties. 25X1

Improving the Transportation System

Canada's transportation system is incapable of handling more than 30 million tons of grain exports, as both rail and port facilities are working near capacity. To eliminate this potential constraint to exports, west coast ports are being expanded and Ottawa has proposed a major revision of the rail transportation system. 25X1

Rail. Until the current recession cut the demand for minerals, transportation bottlenecks were common because grain had to compete with coal, sulfur, and potash for rail space. The railroads, moreover, are discouraged from carrying grain because of artificially low grain freight rates, which have not been increased since 1898. These rates cover only about 20 percent of the real cost of transporting grain. The low revenues from grain shipments have prevented the railroads from maintaining and improving the grain transportation system. 25X1 25X1

Ottawa is committed to providing additional aid to the railroads to increase grain shipping capacity. The government purchased 1,180 new grain hopper cars this year and has contracted to purchase a like number annually through MY 1985/86 as part of a four-year $2.1 billion program to improve rail transport, especially to west coast ports. Ottawa

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Canada: Major Long-Term Grain Agreements

	Annual Shipments (*million metric tons*)	Type of Grain	Length of Contract
China	3.5-4.2	Wheat	August 1982–July 1985
Brazil	1.0-1.5	Wheat	January 1983–December 1985
Iraq	0.4-0.7	Wheat	January 1983–December 1985
Algeria	0.5-0.7	Durum, wheat	July 1983–June 1986
USSR	4.0-6.0	Wheat, barley	August 1981–July 1986
Lebanon	0.1-0.2	Wheat	August 1981–July 1986

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also has proposed a 10-year $13.4 billion federally funded rail improvement program. In February, Ottawa proposed doubling the grain freight rate by 1986, with additional increases by 1991. After the final rate increase, Ottawa estimates that rail shipping charges will cover about 60 percent of actual transport costs.

Ports. Canada has four major grain handling terminals: Thunder Bay on Lake Superior, Churchill on Hudson Bay, and Vancouver and Prince Rupert on the west coast. Almost all grain shipments through east coast ports—nearly one-third of the country's total grain exports—go through Thunder Bay. Ottawa expects the amount of grain moved through the Great Lakes by 1985 to be 3.4-5.4 million tons above the 1980 level. Only a small portion of grain goes through Churchill because the port is blocked by ice from mid-October to mid-July.

Ottawa has concentrated its efforts on increasing terminal capacity on the west coast. Last summer, the government approved construction of a $180 million grain terminal at Prince Rupert, British Columbia, by 1983. The new facility is expected to handle 1.9 million tons of grain per year when first opened, later expanding to 3.5 million tons, and will provide a 30-percent increase in storage capacity.

Marketing

Ottawa has become more aggressive in seeking markets for its wheat by offering export credits, discounting prices, and strengthening the marketing infrastructure. In a speech to the Annual Canadian Agriculture Conference in December 1982, Agriculture Minister Whelan stressed the importance of a strong marketing system to bolster exports.

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Procedures. The Canadian Wheat Board has sole responsibility for marketing wheat, oats, and barley destined for export.[2] Most of the sales—including all those to centrally planned economies—are negotiated by the CWB. Other sales are completed by private trading companies acting for the Board. LTAs have become more important in recent years as Ottawa has tried to stabilize exports, but about half of sales are still on a one-time basis. In 1982 the USSR, China, Poland, Brazil, Mexico, Algeria, Iraq, and Lebanon had long-term grain agreements with Canada.

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The CWB can extend credits of up to three years. It borrows at rates 0.25 percentage point below the prime and then passes the interest charges on to the customer. All CWB credits are guaranteed by the federal government, with Ottawa setting liability limits on an individual country basis. The CWB has

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[2] Other grains (rye, flaxseed, and rapeseed) are marketed by private traders.

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Canada: Major Grain Export Markets, 1981/82

	Total	Wheat	Barley	Other	Share of Total Grain Exports
	Thousand metric tons				*(percent)*
Total	**26,864**	**18,447**	**6,012**	**2,405**	**100.0**
Major markets	22,491	16,352	4,277	1,862	83.7
USSR	8,242	5,019	2,780	443	30.7
Japan	3,601	1,367	913	1,321	13.4
China	3,177	3,101	76	0	11.8
Poland	1,690	1,674	0	16	6.3
United Kingdom	1,405	1,366	3	36	5.2
Brazil	1,316	1,316	0	0	4.9
Cuba	1,113	1,050	52	11	4.1
Italy	932	515	417	0	3.5
Algeria	666	595	36	35	2.5
Egypt	349	349	0	0	1.3

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$1.7 billion in credit outstanding to 11 countries. Poland is the largest credit customer, with $970 million outstanding, but it is in arrears and now must pay cash. Recent credit arrangements have been extended on a variable rate basis to offset the volatility of interest rates. Longer term credits of up to seven years can be offered through the Export Development Corporation (EDC) with the same government guarantees. Yugoslavia reportedly received EDC long-term credits last January.

In June 1982, Canada for the first time extended credit to the USSR for the purchase of grain. As of late March, however, there were no indications that Moscow had drawn against the $1 billion 180-day line of credit. In January, Ottawa also extended two-year credits to East Germany for the purchase of 1 million tons of grain. This was the first Canadian sale of grain to the East Germans in two years and apparently was due to the favorable credit terms. East Germany reportedly purchased another 1.5 million tons of wheat and barley in June with two- to three-year repayment terms.

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Ottawa also has been increasingly willing to discount prices to capture new sales. It recently sold 36,000 tons of low-quality wheat from last year's crop to Mexico at discount prices. Mexico cited the low price as the reason it was purchasing from Canada rather than from the United States. Low prices also apparently caused Taiwan to make its first purchase of Canadian grain in several years. Similarly, Canada reentered the Sri Lankan market with a 50,000-ton sale priced about 14 percent below the lowest US bid. The Canadians may have undersold the United States in Brazil, Thailand, and the Philippines as well.

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Prospects

Canada's grain-producing capabilities should be adequate to meet its export target of 36 million tons by 1990. We believe that Canada can also adequately modernize its rail transport, grain handling, and port facilities. Export growth, however, could be hindered by labor problems. Both rail workers and grain handlers have a history of job actions that delay shipments and undermine Canada's reputation as a reliable supplier. For example, west coast grain handlers engaged in a work stoppage last fall that closed the port of Vancouver for nearly a month. [redacted] 25X1

The key issue is whether Canada will be able to sell additional grain in a shrinking world market. Although the CWB itself has become more aggressive in its marketing activities, Ottawa is concerned over the possibility of a grain trade war among the major exporters. Nevertheless, Ottawa's effort to expand grain exports will intensify competition with the United States, and, despite fears of a trade war, Ottawa appears unwilling to do more than give lipservice to US efforts to reduce production in order to boost world grain prices. [redacted] 25X1

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